



# Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

## Unclaimed property 101

Recent discussions about the Legislature's plans to use a portion of the state's unclaimed property fund have brought renewed interest in the program structure.

Oklahoma's unclaimed property fund consists of funds remitted to the state by businesses that have lost track of people to whom they owe money or other items of value. The most common types of unclaimed property include oil and gas royalties and accounts with financial institutions. Unclaimed property also includes un-cashed payroll checks, rebates, security deposits and stocks

or bonds. The funds are transferred to the state three to seven years after a business last had contact with the owner.

Unclaimed property laws, which exist in every state, are considered among the first consumer protection programs in the nation. The mission of unclaimed property is to protect the rights of owners whose property has been misplaced or forgotten and reunite them with it. If not for this program, abandoned or forgotten funds would remain with the business and the owner might never have the opportunity to reclaim it.

However, a portion of abandoned property will never be claimed. Some owners have died with no heirs; others may never become aware they are an owner or heir; and a number simply chose to not file a claim. Therefore, some funds can be made available for public purposes – which is why these funds are legally required to go to the state in the first place, to serve a public good not a private one.

The way states handle receipt of unclaimed property varies, as do their efforts to inform the rightful owners.

**SEE UNCLAIMED PAGE 3**

### Inside

- Commentary by Jeff Hickman, Speaker of the House
- Agency budget cuts coming, but only one is voluntary
- Q & A with Senate Appropriations Chair Clark Jolley
- Oklahoma gross receipts continue positive trend
- Jobs up, unemployment down in February

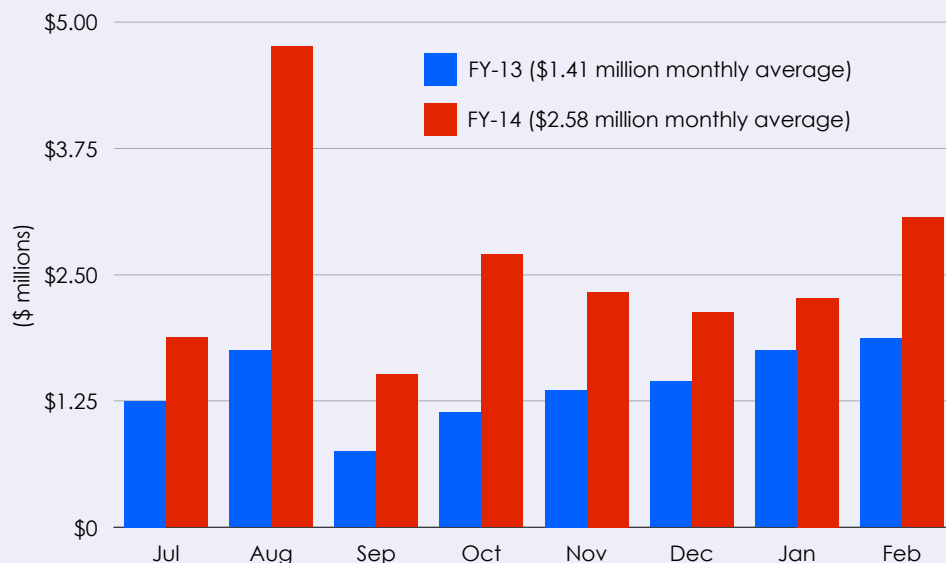
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### Unclaimed Property Returns Increase FY-13 to FY-14 YTD Monthly Claims Paid



Source: Office of the State Treasurer, Internal Auditor



## Guest Commentary

By State House Speaker Jeff Hickman

### Startup businesses are big contributors

When I began serving in the Legislature in 2005, Republicans had just gained the majority in the House of Representatives and were launching an aggressive effort to drive conservative policies to get government out of the way so businesses could prosper and grow our economy. That effort has seen many successes and continues today.

I am reminded of this priority on my drive to the Capitol as I pass through El Reno, where on a clear day you'll see a stream of planes flying past the Oklahoma City skyline 40 miles to the east.

Today, Oklahoma City is a well-known national success story. The skyline is dominated by skyscrapers of companies that make billions in industries like energy, banking and utilities, and those planes flying past it are almost all connected to Will Rogers World Airport or Tinker Air Force Base, which together represent one of the nation's strongest aerospace hubs and a growing pillar of Oklahoma's economy.

But there is also growth elsewhere, like downtown El Reno, where a growing stable of small businesses

are increasingly abuzz, selling everything from tractor parts to automobiles to onion burgers.

In between these very different downtowns, farmers, ranchers and wildcatters are busy using new innovations to tap Oklahoma's abundant natural resources for the benefit of citizens worldwide, as they have since statehood.

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**“Our goal has been to make sure state government keeps life as burden-free as possible for citizens and businesses.”**

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This spot along I-40 in El Reno is important to me because it affords a view of so many diverse businesses, many with deep Oklahoma roots, thriving in a state with an opportunity-filled economy that is the envy of the nation.

I sense a far stronger level of business confidence in Oklahoma today than in 2005. All the major empirical indexes



measuring business activity show the same. This is something to appreciate because confidence, more than almost anything else, is a major driver of business decisions.

Startup businesses, in particular, are far more confident today. Oklahoma entrepreneurs are increasingly going out on their own to start businesses because they see growth potential that gives them confidence to take risks and begin something new. That's a huge testament to our state's strength.

The Secretary of State reports that between Fiscal Years 2010 and 2013, limited liability corporation filings in Oklahoma increased by nearly 30 percent, from 16,200 in FY 10 to 21,033 in FY 13. More and more small businesses are forming because there is opportunity to lay claim to market share in their given industry.

This trend is even more impressive amid all the obstacles businesses face

**SEE HICKMAN PAGE 3**



## Hickman FROM PAGE 2

from the federal government, from Obamacare to the seemingly endless list of new federal regulations. With all the bad-for-business burdens

coming down from the federal level, our goal as Oklahoma House Republicans has been to make sure state government keeps life as burden-free as possible for citizens and businesses.

The confidence we're observing from state businesses today tells us we've been doing something right the past decade. That's why we remain committed to reducing government burdens to foster opportunity, freedom and growth in Oklahoma.

## Unclaimed FROM PAGE 1

Most states deposit unclaimed property receipts directly to the state's general fund, less a predetermined amount set aside to pay claims.

Oklahoma is one of a few states whose statutes specify that cash holdings of the unclaimed property program are designated for payment of claims and administration of the program and does not direct diversion of the funds. However, Oklahoma law allows the Legislature to transfer funds for public use after the Office of the State Treasurer has determined an amount necessary to pay anticipated claims.

The Legislature is responsible for determining if, and for what purpose, any unclaimed property funds above the reserve amount should be used. Each year, \$10 million of the fund is included in the certification of funds available for the state budget, because that limited

amount is assumed to be recurring. On top of that, the Legislature has annually requested use of additional funds for budgetary purposes – spending a total of \$177 million from the fund in the past five years.

While the Legislature has grown accustomed to tapping the fund on

an annual basis, State Treasurer Ken Miller has repeatedly warned that the fund is not a recurring source of revenue and should not be depended on for operating expenses.

“From one year to the next, the amount of money coming into the

unclaimed property fund varies greatly, so it should not be counted on as a revenue source for recurring expenses. Should non-recurring revenues like unclaimed property be appropriated for current operating expenditures, it would build a hole into the budgets of subsequent years, which is neither fiscally responsible nor prudent,” Miller said.

“Oklahoma should reserve the use of non-recurring revenue, including unclaimed property funds, for extremely dire budget situation and one-time projects. The FY-15 revenue certification, though less than the current year, does not qualify as an extremely dire budget situations.”

Regardless of the Legislature's use of the fund, no unclaimed property owner ever gives up his or her right to claim the funds from the state.

The state's unclaimed property database includes more than 838,000 properties and dates back to 1967. The largest single property waiting to be claimed is for \$551,272. The names and last known addresses are reported to the program along with the property, but, as previous attempts by businesses to contact these individuals were unsuccessful, the information is typically incorrect.

The program's success at returning funds has surged with expanded outreach efforts. In 1999, the last year the program was administered by the tax commission before being transferred to the state treasury, the total amount of claims processed for citizens totaled \$4.3 million. In FY-12, \$15.1 million was returned, setting the highest amount

**SEE UNCLAIMED PAGE 4**

“**The unclaimed property fund should not be counted on as a revenue source for recurring expenses.**”



## Unclaimed

### FROM PAGE 3

returned to date. In FY-13, more than \$16 million was returned and set another record.

What has proven to be the most cost efficient and effective way to get people reunited with their lost funds is public outreach that drives individuals to contact the office by phone, internet or in person at the Capitol to search the massive list of names and initiate a claim.

At the start of this fiscal year, the treasurer's office launched a first-in-the-nation pilot program that, consistent with the philosophy of smaller, more efficient government, provides incentives to employees to work even harder, smarter and faster.

This new initiative, coupled with enhanced marketing and outreach to increase public awareness of the program, have FY-14 on track to shatter all previous records. So far this fiscal year, the amount of cash and stock returned tops \$20 million, with four months still remaining.

With more than 9,000 claims completed this year, 40 percent have been paid within one week. These "fast track" claims are for less than \$5,000 each and are those in which ownership is verified from information provided by the claimant that matches information either reported by the businesses that remitted the property or by other databases.

The success of the pilot program has caught the attention of other state treasurers across the nation, and after the first year concludes, the Oklahoma Treasurer's Office will share the full

results and components of the program with others so that it may be replicated.

As Treasurer Miller continues to layer more outreach and innovation to the program to return more funds more quickly to rightful owners, the amount of funds needed to pay expected claims will continue to rise.

With increasing required reserves, it will be even more important to avoid the temptation of using unclaimed property funds for recurring items in the budget.

Oklahoma is fortunate in that it has statutory protections that put the mission of the unclaimed property program ahead of tapping it as a state revenue source.

Further, state law provides for the operation of the program to be funded by four percent of the money received by the fund each year. In some years, excess funds are also made available from this operating fund.

Last year, the treasurer requested the Legislature transfer \$2.5 million from this fund for other state uses, but that was inadvertently omitted from the general appropriations bill. This year, the treasurer has identified an additional \$2 million that can be transferred.

The accumulation of operating funds over the past couple of years is due to unusually high volumes of property being reported - another unpredictable variable of the program. The four percent operating contingent may be higher than actual expenses in some years, but in other years it may just cover operational costs.

Current law ensures that the program has sufficient funds to effectively contact the public and to quickly process claims, while allowing for above-

expected funds to be remitted for public purpose.

The innovations undertaken by Oklahoma's unclaimed property program is poised to become a model for the rest of the nation, but more important, it is putting funds in the pockets of rightful owners and making a difference in many citizens' lives. Discussions or debate about legislative spending of any "excess" funds should at least recognize this.

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## Capital markets snapshot

The bull market in stocks is now five years old. Since the low on March 9, 2009, the S&P 500 Index is up 175%. The value of U.S. equities has increased some \$16 trillion. Household wealth grew to a record \$80.6 trillion in the fourth quarter, up from \$68.8 trillion in mid-2007 before the recession.

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Despite the massive purchases by the Fed, the 10-year Treasury yield today is a mere four basis points lower than five years ago. Corporate yields are much lower because spreads to Treasuries have dropped sharply from the panic levels of 2008-09.

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The events in Ukraine show again that investing in emerging markets should be for the long term. Short-term investing is too risky. Movements as great as 10% up and down have become commonplace in those stock and bond markets. The chief strategist at Northern Trust thinks these markets are now very cheap for long term investors.

*Reprinted from Baird Fixed Income Commentaries, March 2014*





## Agency budget cuts coming, but only one is voluntary

With state revenue for appropriations certified at almost \$190 million less for the coming fiscal year, almost every state agency is expected to take a cut this legislative session.

But in the case of only one agency – the state treasurer’s office – the budget reduction is being voluntary offered.

This is the second consecutive year State Treasurer Ken Miller has asked the Legislature to cut appropriations for his office.

Data from the fiscal division of the Oklahoma State Senate show 26 agencies have requested no change in appropriations this year. That compares to 20 agencies that made the same request last year.

Among those joining the no-change group this year are the Historical Society, State Auditor and Inspector, and Department of Environmental Quality, which last year requested increases of 352.1 percent, 56.6 percent and 25.8 percent respectively.

Of the 71 agencies listed on the Senate spreadsheet, 44 are requesting increases in appropriations ranging from 504 percent to two percent. The total amount of additional appropriations requested is \$810.95 million.

Miller said his request for a five-percent budget cut is made possible by focusing office operations on core treasury functions. He also requested and was granted a five-percent appropriations reduction last year.

“We are reaping the rewards of becoming more efficient and tightly focused on our core mission with the

result being less dependence on taxpayer money,” he said. “This year’s request for a \$178,000 cut in appropriations is the continued benefit of outsourcing non-core jobs and taking advantage of advances in technology. In short, we have increased our output while decreasing our costs.”

Prior to the last recession, the treasurer’s office had 72 employees working in three locations in Oklahoma City, including two leased offices.

Now the staff is 40 percent smaller and all treasury employees work in one location in the State Capitol Building after closing external offices.

Miller’s two voluntary requests for appropriations cuts come after reductions of 17 percent during the most recent recession.

In addition, due to unusually high collections, coupled with savings gained through efficient operation of the unclaimed property program, Miller asked the Legislature to reallocate \$2.5 million last year and \$2 million this year from the program’s administration fund, composed of 4 percent of unclaimed property collections.

State law prohibits use of the unclaimed property administration fund for other treasury expenses.

### FY-15 Appropriations Requests Percentage increase/decrease requested

#### Top 25

Ethics Commission	504%
Will Rogers Memorial Comm.	439%
Educational Qual. & Account	231%
Physician Manpower Training	108%
Conservation Commission	95%
Horse Racing Commission	70%
Narcotics and Dangerous Drugs	54%
OCAST	48%
Mental Health & SAS	46%
Military, Department of	45%
Civil Emergency Management	44%
Merit Protection Commission	38%
Disability Concerns, Office of	31%
Pardon and Parole Board	31%
CLEET	28%
Career Technology Education	25%
Attorney General	24%
Investigation, State Bureau of	24%
Science and Math, School of	18%
Public Safety, Department of	16%
ABLE	16%
Health Care Authority	15%
District Attorneys and DAC	15%
Juvenile Affairs	14%
Arts Council	12%

#### Bottom 25

Governor	0%
House of Representatives	0%
Legislative Service Bureau	0%
OMES	0%
Lt. Governor	0%
Senate	0%
Space Industry Development	0%
Tax Commission	0%
Transportation, Department of	0%
Children and Youth Comm.	0%
Health, Department of	0%
J.D. McCarty Center	0%
Commerce, Department of	0%
Consumer Credit	0%
Environmental Quality	0%
Historical Society	0%
Insurance Commissioner	0%
Labor, Department of	0%
Auditor and Inspector	0%
Tourism and Recreation	0%
Water Resources Board	0%
Indigent Defense System	0%
Supreme Court	0%
Workers' Compensation Court	0%
Treasurer	-5%

Source: Oklahoma State Senate Fiscal Division



## Q & A with Senate Appropriations Chair Clark Jolley

**OER: The final estimate of funds for FY-15 is \$188 million less than the current year. How do you propose to write a balanced budget in light of the reduction and the options available: across-the-board cuts, targeted cuts, and revenue enhancements?**

CJ: As conservatives, we must fund government responsibly and use shortfalls to further weed out wasteful spending and inefficiencies.

The Senate will fight to avoid tricks and gimmicks when writing the budget. We will work to better prioritize the budget by resisting across-the-board reductions, which are not the appropriate way to cut spending.

Targeted cuts in spending combined with limited use of agencies being forced to spend down their revolving funds is how I represent the Senate when crafting the budget.

**OER: The Executive Budget proposes increased use of revolving funds to make up for much of the funding reduction. Please explain why this is necessary and how it differs from using one-time sources of revenue to fill budget holes?**

CJ: Governor Fallin, Chairman Martin and I championed using less in non-recurring revenue and just last year, we were successful in helping cut our reliance on “one-time sources” in half.

One-time sources of funding should be used only for one-time purposes, not to fill budget holes. Agencies which have large revolving funds, however, should be required to spend them down and receive less appropriated money while

doing so. That is preferable and very different than taking their revolving funds for use elsewhere in the budget.

**OER: Prior to session, the State Treasury was asked to examine the balance of the UP fund to determine how much money could be made available for use by the Legislature without impacting the ability of the office to pay claims. OST determined that \$40 million could be made available. In your opinion, is the American Indian Cultural Center and Museum an appropriate use of these funds? Why or why not?**

CJ: President Pro Tempore Brian Bingman, Governor Fallin and I have all been adamant that we not revert to the old practices of using large amounts from the Unclaimed Property Fund for recurring budget needs. It is my hope that at the end of the day, the progress we made in reducing our excessive reliance on this fund for ongoing budget needs makes it a practice of the past.

Completing the American Indian Cultural Center with these funds actually would reduce the burden on the general revenue fund by avoiding debt, generating ticket revenue, and eliminating the monthly mothball expense. It is the most conservative approach I have seen to getting the state

out of this project that it created when I was still in college.

**OER: Governor Fallin is strongly recommending passage of a \$160 million bond issue to fund long-overdue repairs to the State Capitol Building, even suggesting that failure to do so would be “irresponsible” given current budget constraints.**

**Why do you agree or disagree?**

CJ: Unlike Washington where spending and debt are out of control, Oklahoma has an unusually low amount of bond indebtedness and can absorb \$160 million in bonds with no threat to the state’s credit rating nor its ability to pay.

**“One-time sources of funding should be used only for one-time purposes, not to fill budget holes.”**

I helped last session to craft and pass a ceiling on our bond debt to promote a conservative limit on our debt. Some believe we should “pay as we go” which would prevent us from using those much needed dollars for priorities such as corrections, education and public safety.

This would be the same as paying cash for your house but not having money left for food and utilities. If the asset is going to last longer than the life of the bond and interest rates are agreeable, using part of the balance in the conservative debt limit without going over isn’t bad policy.

**SEE JOLLEY PAGE 7**



## Jolley

FROM PAGE 6

**OER: There are proponents and opponents of an income tax cut this session. Please tell us which camp you are in and why your position is good fiscal policy given the FY-15 revenue certification.**

CJ: Consumers of government spending are consistently decrying our conservative beliefs and actions to lower our personal income tax rate. But I believe we should absolutely cut our income tax rate and believe we can do so without harming core services by lowering rates and broadening the base.

If we cut taxes in areas that penalize

economic investment in Oklahoma, such as the personal income tax, the resulting growth has consistently demonstrated it is good policy.

**OER: Which budget areas do you believe are ripe for an increase or decrease in next year's budget?**

CJ: Common Education, Public Safety, Corrections, the Medical Examiner, the Ethics Commission all will hopefully see modest yet responsible increases in their budgets to take care of growing needs. We will try to keep core functions whole and limit other agencies' cuts to no more than five percent. Finally, the Senate will propose a cut in spending for each elected office holder, including the House and Senate.

## About Senator Clark Jolley

Senator Clark Jolley was first elected to the Oklahoma Senate in 2004 and serves as the Chair of the full Appropriations Committee and Co-Chair of the Joint Appropriations and Budget Committee.

Jolley received Music Education and Political Science degrees from Oklahoma Baptist University before graduating Law School at the University of Oklahoma.

Jolley serves on the Worship & Arts Staff at Henderson Hills Baptist Church in Edmond and teaches in the MBA Program at Oklahoma Christian University. He and his wife, Verlyne, have two children, Alex and Lauren, in Edmond public schools.

## Oklahoma jobs up, unemployment down in February

Oklahoma's seasonally-adjusted unemployment rate was listed at 5 percent in February by the Oklahoma Employment Security Commission.

The U.S. unemployment rate was set at 6.7 percent during the same time period.

Statewide employment increased by 3,570 jobs during the month, while unemployment dropped by 3,380 people according to the seasonally-adjusted figures.

During the same time period, U.S. employment was listed as 145.3 million people with almost 10.5 million unemployed.

Over the year, Oklahoma unemployment fell by 5,060 people and the number of those employed increased by 19,100.

### State Unemployment Report

FEBRUARY 2014		Unemp. rate*	Labor force*	Employment*	Unemployment*
Oklahoma		5.0%	1,824,740	1,734,040	90,710
United States		6.7%	155,724,000	145,266,000	10,459,000
OKLAHOMA		Unemp. rate*	Labor force*	Employment*	Unemployment*
Feb '14		5.0%	1,824,740	1,734,040	90,710
Jan '14		5.2%	1,824,560	1,730,470	94,090
Dec '13		5.4%	1,823,410	1,724,920	98,480
Nov '13		5.5%	1,822,060	1,722,590	99,480
Oct '13		5.6%	1,821,950	1,720,460	101,480
Sep '13		5.6%	1,819,680	1,718,450	101,220
Feb '13		5.3%	1,810,800	1,715,030	95,770

\* Data adjusted for seasonal factors

Source: OESC



## Gross receipts & General Revenue compared

The Treasurer's March 6 gross receipts to the treasury report and the Office of Management and Enterprise Services' March 11 General Revenue Fund (GRF) report contain several differences.

February gross receipts totaled \$818.08 million, while the GRF received \$270.7 million or 33.1% of the total.

The GRF received between 33.1% and 57.1% of gross receipts during the past 12 months.

From February gross receipts, the GRF received:

- Personal income tax: 13%
- Corporate income tax: None
- Sales tax: 45.2%
- Gross production-Gas: 17.5%
- Gross production-Oil: 66.9%
- Motor vehicle tax: 29%
- Other sources: 33.5%

February GRF allocations missed the estimate by \$23.7 million or 8.1%. Fiscal year-to-date allocations are below the estimate by \$174 million or 4.8%.

For February, insurance premium taxes totaled \$12.46 million.

Tribal gaming fees generated \$8.17 million during the month.

## Oklahoma gross receipts continue positive trend

Oklahoma's monthly gross receipts to the treasury report shows total state collections continued to rise in February, the fourth anniversary of the low point reached following the Great Recession, said State Treasurer Ken Miller.

"Collections, as they did this month, have topped the same month of the prior year in 41 of the past 48 months," Miller said. "The state's gross receipts have grown by almost 25 percent in the last four years."

Twelve-month gross receipts have

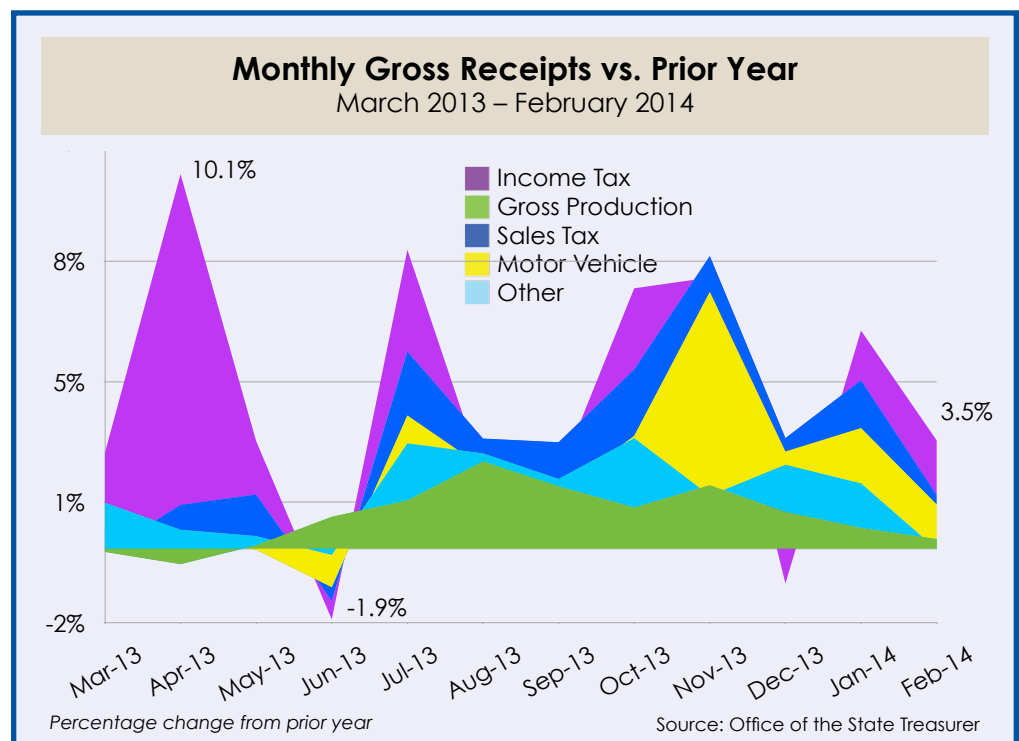
expanded by \$2.2 billion or more than 23 percent since exiting their trough in February 2009, eight months following the official end of the last national recession.

**"The state's gross receipts have grown by almost 25 percent in the last four years."**

Miller said February receipts indicate the key value of the oil and gas industry to the state's economy.

"Gross production collections are up by more than 10 percent for the month and reflect a 10<sup>th</sup> consecutive month of year-over-year growth in generated revenue," he said.

**SEE REVENUE PAGE 9**







## Revenue

### FROM PAGE 8

Miller said the gross production revenue increase, which is based on production during December, can be credited primarily to moderate increases in price for the commodities.

Miller observed that corporate income tax and motor vehicle collections also jumped by double digits during February, but cautioned against reading too much into those numbers due to some non-economic factors.

“The 45 percent jump in corporate income tax collections simply exemplifies the wide variances we often see in month-to-month reporting of that revenue stream,” he said.

“The nearly 20 percent increase in motor vehicle taxes is skewed due to an accounting anomaly that occurred during 2013 whereby collections were reported as being artificially low.

The anomaly will continue through November.”

### Positive business conditions

The latest Business Conditions Index for Oklahoma report anticipates continued economic growth, accelerating from January’s report. The February survey shows Oklahoma with a rating of 58.9, compared to January’s 54.7. Numbers above 50 indicate anticipated economic growth in the next three to six months.

### February collections

The revenue report for February shows gross collections at \$818.08 million, up \$27.67 million or 3.5 percent from February 2013.

Gross income tax collections, a combination of personal and corporate income taxes, generated \$246.64 million, an increase of \$11.63 million or 4.9 percent from the previous February.

Personal income tax collections for the month are \$238.35 million, up \$9.05 million or 3.9 percent from the prior year. Corporate collections are \$8.29 million, an increase of \$2.58 million or 45.2 percent.

Sales tax collections, including remittances on behalf of cities and counties, total \$335.27 million in February. That is \$2.03 million or 0.6 percent above February 2013.

Gross production taxes on oil and natural gas generated \$69.83 million in February, an increase of \$6.66 million or 10.6 percent from last February. Compared to January reports, gross production collections are up by \$6.1 million or 9.6 percent.

Motor vehicle taxes produced \$59 million, up by \$9.56 million or 19.3 percent from the prior year.

Other collections, consisting of about 60 different sources including taxes on fuel, tobacco, horse race gambling and alcoholic beverages, produced \$107.33 million during the month. That is \$2.22 million or 2 percent less than last February.

### Twelve-month collections

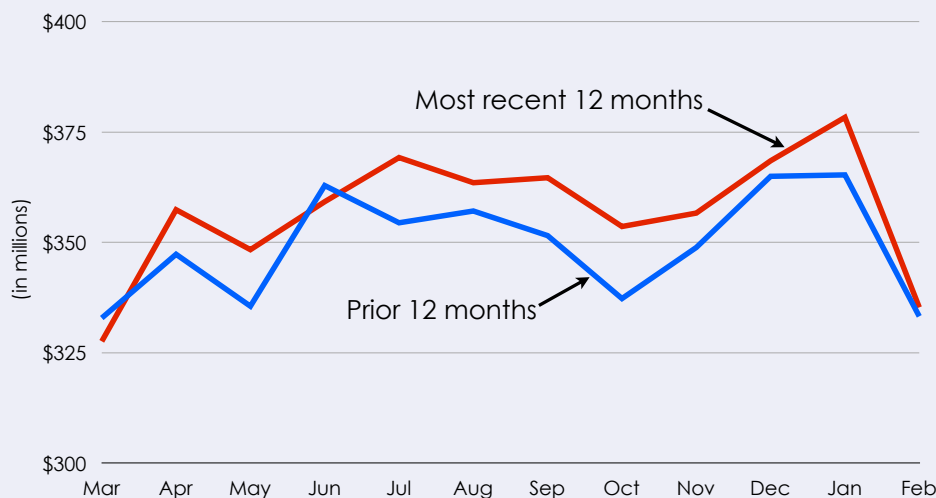
Between March 2013 and February 2014, gross revenue totals \$11.53 billion. That is \$452.24 million or 4.1 percent higher than collections from the previous 12-month period.

Gross income taxes generated \$4.13 billion, reflecting an increase of \$144.33 million or 3.6 percent from the prior 12 months.

Sales taxes for the period generated \$4.28 billion, an increase of \$91 million or 2.2 percent from the prior 12 months.

### Gross Sales Tax Collections

March 2012 – February 2014



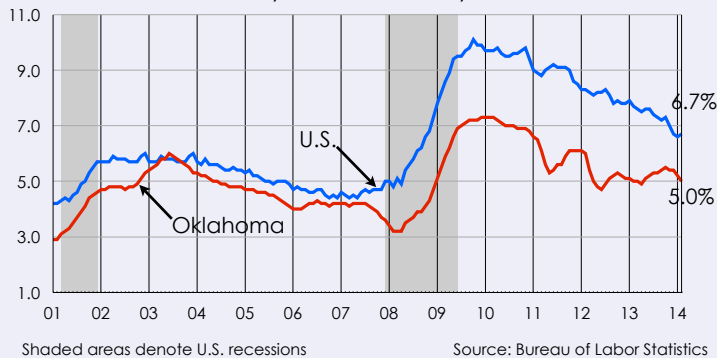
Source: Oklahoma Tax Commission



## Economic Indicators

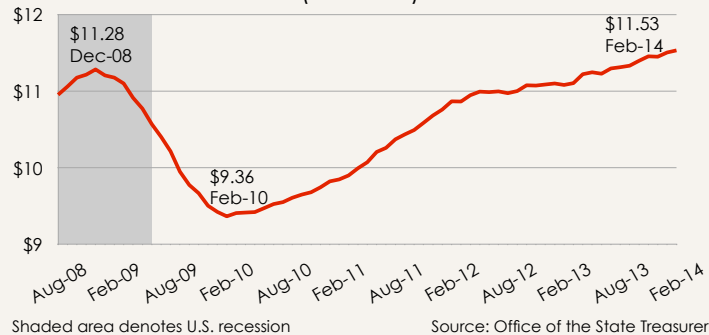
### Unemployment Rate

January 2001 – February 2014

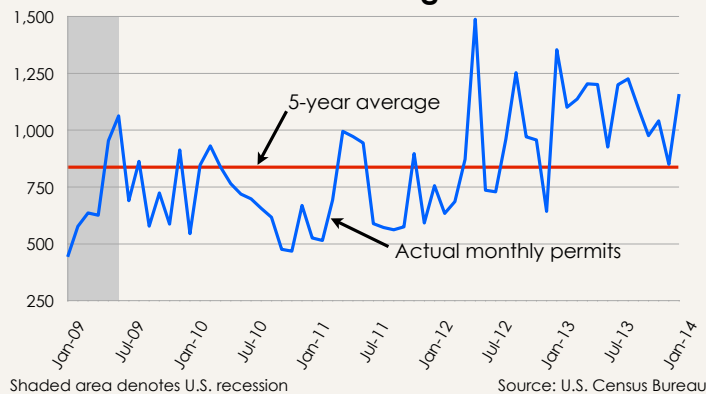


### Oklahoma 12-Month Gross Receipts

August 2008 - February 2014  
(in billions)

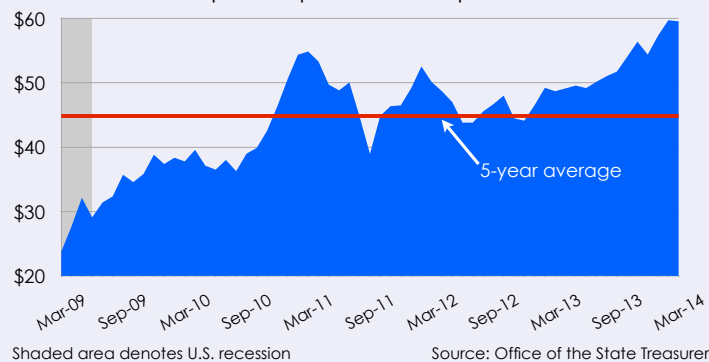


### Oklahoma Building Permits

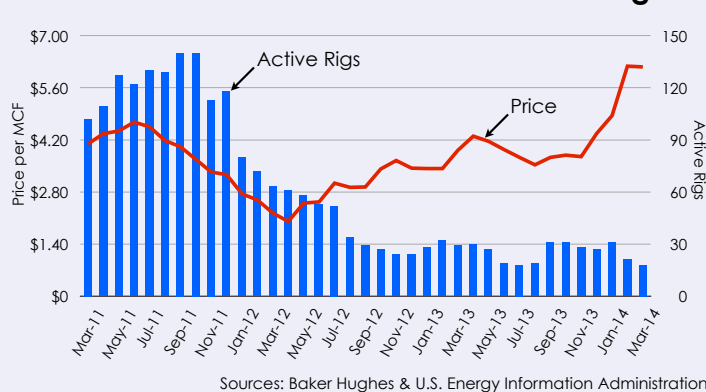


### Oklahoma Stock Index

Top 25 capitalized companies



### Oklahoma Natural Gas Prices & Active Rigs



### Oklahoma Oil Prices & Active Rigs

